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Dear Co-Investor,

The NAV of Business Owner was EUR 169.23 as of 30 June 2011. The increase in NAV was 17.3% since the start of the year and 69.2% since inception on 30 September 2008. The DAX was up 6.7% and 26.5% respectively.

Tracking the Performance of the Fund

I have not commented on the performance of the fund in any of my letters to date. It occurred to me that this might strike you as quite odd as what could be more central to an investor letter than a discussion of the fund's price? The reason is simple – over short periods of time, changes in share prices are more or less completely random. With the benefit of hindsight, it is of course possible to spin a story around the facts. Thus a period of strong performance might be explained by an improving economic outlook and a period of weak performance might be explained by increasing uncertainty (when is the future ever not uncertain?). Needless to say, it would be a waste of time to try to rationalise developments which were effectively random, so I abstain from it. Not only that, it would create the illusion of predictability about short term share price performance which might add to the feel-good factor when prices are rising, but would create a sense of disorientation when they fall, as they inevitably will from time to time. This would significantly impair the fund's performance as when prices are low, I want to be on the look out for bargains, not scrambling for orientation.

If, in the short run, share price is a poor indicator of how things are going, how should performance be measured? I have two suggestions: one qualitative and one quantitative. To start with the qualitative, I think you should regularly check the fund for intellectual consistency. When I buy a part ownership in a business, I have four main criteria: I want to be sure that (1) the business will be around and flourishing decades from now; (2) the managers are trustworthy and talented, (3) the business has a sustainable competitive advantage; and (4) the valuation permits an attractive return over a long holding period. I encourage you to check the positions in the portfolio against these four criteria. If you think one of the companies is doing something esoteric or one of the managers plays hard and fast with the rules, it is a sign that something has gone awry. To help you judge whether this is the case, I normally describe the main activities of any new holdings in the fund and how they stack up against my criteria. This helps you to evaluate how good a job I am doing and me to stay disciplined. I have also said in the past that I consider myself a long term owner of businesses rather than a trader. As such, you should not expect too many

new names in the portfolio from one period to the next. If I am successful at buying great companies run honest managers when they are cheap and do not give up too much of the upside in the form of transaction fees through excessive trading, it is difficult for me to envision that performance will be anything but satisfactory.

From a quantitative perspective, I think the best figure to track is the growth in the portfolio companies' earnings. Whilst in the short term, changes in share price are random, in the longer run, they will more or less precisely track the growth in earnings, be it at the company or the fund level. Thus, over time if a company's earnings double, you can expect its value to double, whereas if its earnings half, the stock price will do likewise. To help you track, the development of the companies' earnings, here is a table showing the earnings development of the top 10 holdings:

Business Owner's Major Investees	Net Income				
	2010	2009	2008	2007	2006
Grenkeleasing AG	27.8	24.6	33.1	32.1	30.5
Hawesko AG	18.0	13.1	14.6	6.7	10.8
Comdirect AG	59.6	56.6	60.8	57.7	57.0
Sto AG	58.2	55.4	51.7	48.4	50.4
WashTec AG	10.8	5.8	15.3	12.6	12.5
Masch. Berth. Hermle AG	18.5	6.6	50.2	35.8	26.2
Takkt AG	47.2	27.1	73.8	78.0	61.6
Kühne & Nagel Internat. AG	601.0	467.0	585.0	536.0	458.3
Atoss AG	4.8	4.0	3.5	2.5	1.9
Synthes AG	907.7	824.0	735.0	612.6	508.8

Source: Company annual reports. I made minor adjustments to some companies' reported earnings where I thought it would assist understanding.

How should this table be interpreted? First and foremost, you should be looking for healthy growth in company earnings. It should be at least 5% and for the top performers 10% or better. The exception is of course in a recession when the earnings will most likely fall across the board, in the case of the more cyclical companies such as Hermle, substantially.

So, how does the performance stack up against these criteria? The answer is "so-so". 5 companies earned the same or less than they did in 2008 (a boom year). 5 companies earned more. You should bear in mind that most of these companies were bought in the midst of the last recession which meant they could be bought at exceptionally low prices despite the near certainty that earnings in the immediate future would be lower than in the past. This is normally the very best time to buy companies and I am not bothered by the subsequent earnings contraction. Nevertheless, 2008 earnings do not represent a "never-again-to-be-attained" pinnacle but are a high water mark from which earnings can and should grow in the future. If they don't, something is amiss. If there are any extraordinarily good or bad developments in companies' earnings, I will comment upon it in future letters.

The earnings of the fund should grow faster than the earnings of the individual holdings as all of the holdings provide dividends which I will use to increase our share of the earnings of existing portfolio companies or buy a part ownership in the earnings of new companies. These dividends are already quite substantial. The top performers are Hawesko, Sto and Comdirect and yield at cost 9.3%, 8.6% and 7.0%, respectively. If done properly (and unfortunately you will only know with hindsight whether I have done things properly), the fund's earnings per share should grow at 10 – 15% p.a. At the top end of this range, this means that the fund's earnings would double every 5 years or quadruple every 10 years.

Synthes, Inc.

I have added just one new company to the portfolio since I last wrote to you: Synthes, Inc. Synthes is the world market leader for orthopaedic products (such as nails and screws) used by surgeons in trauma operations. I believe it enriches the portfolio in terms of all four investment criteria. As long as people continue to have accidents, there will be demand for its products. It has an enormous competitive advantage as the majority of surgeons are trained exclusively on its products. In addition, its sales consultants have a close relationship with the surgeons as they are generally present during the operation. The Company has an owner-manager for whom Synthes constitutes his life's work. The valuation was highly attractive for a business of this quality with a cash-adjusted p/e of around 11x for a business which has virtually no cyclical, requires little incremental capital to grow, and even in the catastrophic economic environment of 2009 was able to grow its revenues at 6%.

I bought most of our stake in Synthes around the start of the year at an average price of SFR. 124. A few months later, Johnson & Johnson ("J&J") made a tender offer for the company at SFR 159, made up of cash and J&J shares. The deal is scheduled to close in the first half of 2012, which means the holding period for this company will be shorter than I envisaged when I initiated the position. After the deal was announced, the discount to the takeover price remained high and has since got wider, so I decided to keep the initial position and add to it slightly due to a lack of compelling alternatives. If the deal is consummated at the agreed price, I think the return could be decent to very good depending on how fast the deal closes. If, contrary to my expectations, the deal fails I am happy to be a holder of Synthes at these levels.

Investor meeting

On 28 May 2011, the Investmentaktiengesellschaft für langfristige Investoren hosted our 3rd annual investor meeting in Bad Godesberg. Together with the fund managers of langfrist1, I described the most important investments we hold in the two funds. We also answered investors' questions on individual holdings and how we allocate capital. The aim of the meeting was to meet with our investors and inform them in as transparent a way as possible about how we allocate their and our capital. I enjoyed the meeting very much and thank our investors for attending and the InvAG for hosting the event once again. For investors who are interested in joining the club, the next subscription date is 30 September 2011.

Yours sincerely

Robert Vinall

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Postscript

I completed this letter towards the end of July before departing on vacation and planned to send it out when I got back. Since its completion, there has been a considerable drop in equity indices worldwide accompanied by a sense of panic reminiscent of the days in the aftermath of the Lehman bankruptcy. It is not my policy to comment on market gyrations, however I also do not want to duck an issue which may be of greater concern to you, the investor, than my ruminations on assessing fund performance, Synthes, etc. For this reason, I thought it might be useful to make a few general observations about large drops in share prices and a few specific ones about the recent market decline.

- 1. You should not worry about headlines proclaiming the end of the world, accompanied by large drops in share prices.** To the contrary, this is normally the surest sign that bargains are on offer. Assuming the portfolio holdings have been properly selected, the only way to lose money after a large market decline is to sell, thus locking in losses permanently. This is something I will not do. To the contrary, after a market decline I will be scouring the market for bargains and with any luck, will be able report back to you at the end of the period that I have either added a new wonderful business to the collection or increased our share of the existing wonderful businesses. Thus, in all probability the value of the fund will have increased although it might not be immediately visible in the fund's price.
- 2. Recessions from time to time are not just a possibility, they are a certainty.** Concerns about the ability and willingness of many Western governments to pay their debts, the sustainability of the Euro, and the prospect of higher inflation are all valid, and it is in no way my intention to negate or belittle the current challenges that Western economies face. Not only that, the probability of the next recession coming sooner rather than later has probably increased as the sharp decline in share prices will dampen consumers' willingness to spend and companies' to hire. However, I do not fear a recession. I hope there is not one given the misery it will visit on many families, but if there is one, the companies we are invested in will, I believe, not only survive but prosper. One of our companies, Hermle, illustrates this point well. Hermle makes machines for manufacturing machine tools. It is in as cyclical an industry as you can imagine. In the 2009 recession, its revenues declined by over 50%! So why on earth am I not racing to press the sell button? Hermle has three major advantages over its competitors: a brilliant owner-manager, who is long term, brave, and contrarian; extraordinary profitability which allowed it to achieve a profit margin in 2009 which was higher than most competitors make in a boom year; and a fortress-like balance sheet including a 71% equity ratio and a large net cash position. Due to all these factors, it was able to do everything you are not supposed to do in a recession. It increased its workforce and even asked its developers to work overtime in order to have innovative new machines in place for when demand returned (as it inevitably would) and it increased inventories (Dietmar Hermle: "I felt our money was safer in the warehouse than in a bank"). As a result, when demand returned in mid 2010, it was not only able to capture it with innovative new products, more importantly it was also able to service it, as its employees were in place and motivated and its warehouse was full. The upshot was that Hermle was

able to make enormous market share gains. Many companies in the portfolio including Sto, Grenkeleasing and Kuehne & Nagel could relate similar experiences. If there is another recession, expect more of the same.

3. **After a large drop in share prices, market commentators will often describe the world as being particularly uncertain**, implying one should sell and sit on cash or, heaven forbid, gold. This is utter rubbish. The world is always uncertain. The range of possibilities in the coming years go from major nuclear detonations in many of the world's major cities accompanied by total economic collapse to sustained economic growth with increasing prosperity, with all the different variations in between. My bet is on the latter and in any case there will be greater concerns than this fund if it is the former. From a capital allocation perspective, I think the world has rarely been as certain as it is today. 10 year German government bonds have a yield of 2.2%, implying an earnings multiple of 45x for an asset with almost no upside and plenty of downside, in particular if inflation takes off. Gold is either doing the greatest impersonation of an asset bubble ever or indeed is one. And cash loses its value daily as inflation is higher than short term money market rates. Cash admittedly has some option value if some valuable assets can later be bought at a cheaper price, however it strikes me as a high risk strategy to hold something which is sure to lose value in the hope of buying something more cheaply that is sure to gain in value. For this reason, I am certain that a collection of great companies run by honest managers is the most attractive option and, in my view, the only option.
4. **The market decline has not thrown up any particularly outstanding opportunities yet, but some interesting situations are developing**. I have a core "shopping list" of about 50 companies which I would love to become a co-owner of. Although many of these are trading 20% or more below where they were trading a few weeks ago, many of them had risen strongly in the first part of the year. The upshot is that we are basically back to where we were 6 months ago. I did not buy them then and I am not going to buy them now, although, oddly, I feel a pressure to be buying given the oft cited dictum to be greedy when others are fearful. Fielmann, a company which I would love to own as I like the business model and I like the people running it even more, illustrates the point well. It started the year at EUR 70, it had a high a few weeks ago of EUR 80 and is now trading at EUR 67 having in the meantime paid a dividend of EUR 2.40. The earnings multiplier is 23x. This is a price which is consistent with the strength of the business model and the management, but not with a market panic. I can only explain the large drops in market indices in that it has been driven by French banks, German utilities, etc. These are businesses which I have no desire or intention to become a co-owner of as they do not fit any of my investment criteria. This is not to say that they are necessarily poor investments. At some point, their prices will reach a level where, with the benefit of hindsight, they will turn out to have been screaming buys. When this happens, a new generation of fund managers will be heralded as geniuses for having loaded up on them and business owner will have some serious underperformance. At this point, please spare a thought for me.